

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /091 W

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R 090340Z JUL 76

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 5617

UNCLAS SECTION 1 OF 2 KATHMANDU 2956

E.O. 11652 N/A

TAGS: EFIN NP

SUBJECT: GON BUDGET FOR FY76/77

1. SUMMARY: FINANCE MINISTER DR. BHEKH BAHADUR THAPA ON JULY 6 ANNOUNCED THE GON BUDGET ESTIMATES FOR FY1976/77. TOTAL ESTIMATED EXPENDITURES ARE RSS. 2,606.6 MILLION (\$209 MILLION AT THE PRESENT RATE OF RS. 12.45 TO \$1), A 32 PERCENT INCREASE OVER THE PREVIOUS YEAR'S REVISED ESTIMATE. OF THE TOTAL RS. 1,783.2 MILLION OR 68 PERCENT ARE CLASSIFIED AS DEVELOPMENT EXPENDITURES, IN COMPARISON TO 63 PERCENT IN FY75/76. GOVERNMENT REVENUES ARE EXPECTED TO RS. 1,545.8 MILLION, UP PERCENT. THE DEFICIT IS TO BE FINANCED BY FOREIGN GRANTS OF RS. 417 MILLION, EXTERNAL LOANS OF RS. 319 MILLION, AND INTERNAL LOANS OF RS.300 MILLION, LEAVING A BALANCE OF RS. 24 MILLION TO BE COVERED BY A DRAWDOWN OF CASH BALANCES. END SUMMARY.

2. DEVELOPMENT ACTIVITIES CONTINUE TO RECEIVE TOP PRIORITY IN THE BUDGET, AS WITNESSED BY THEIR INCREASED SHARE OF THE TOTAL. THE 12 PERCENT INCREASE IN REGULAR BUDGET ALLOCATION IS SIGNIFICANTLY LOWER THAN PREVIOUS YEARLY INCREASES, WHICH HAD BEEN RUNNING AT AROUND THE 20 PERCENT LEVEL. AGRICULTURE CONTINUES TO RECEIVE PRIORITY ATTENTION, ITS ALLOCATION GOING UNCLASSIFIED

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UP 50 PERCENT AFTER AN 80 PERCENT INCREASE THE PREVIOUS

YEAR. TRANSPORTATION AND COMMUNICATIONS, ALTHOUGH DISPLACED BY AGRICULTURE AS THE SINGLE LARGEST LINE ITEM, CONTINUES TO RUN A CLOSE SECOND. THESE TWO SECTORS TOGETHER ACCOUNT FOR OVER HALF OF THE ENTIRE DEVELOPMENT BUDGET. BREAKDOWN OF DEVELOPMENT EXPENDITURE ALLOCATIONS IS AS FOLLOWS (MILLIONS OF RUPEES):

ECONOMIC SERVICES:

ECONOMIC SERVICES:	1,256	
AGRICULTRE	457	
TRANSPORTATION AND COMMUNICATIONS		449
POWER	134	
INDUSTRY AND MININTG		129
FORESTS	49	
OTHER	38	

SOCIAL SERVICES:

SOCIAL SERVICES:	478
EDUCATION	199
HEALTH	126
POTABLE WATER	73
PANCHAYATS	59
OTHER	21

ECONOMIC ADMINISTRATION AND

MISCELLANEOUS	49
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3. ON A REGIONAL BASIS, THE DEVELOPMENT BUDGET IS DISTRIBUTED AS FOLLOWS: 17 PERCENT TO THE FAR WESTERN REGION, 13 PERCENT TO THE WESTERN REGION 40 PERCENT TO THE CENTRAL REGION, 11 PER CENT TO THE EASTERN REGION, AND 19 PERCENT ON THE NATIONAL LEVEL.

4. FOREIGN ASSISTANCE STILL LAYS A KEY ROLE IN THE DEVELOPMENT BUDGET. FOREIGN GRANTS AND LOANS ARE EXPECTED TO TOTAL RS. 736 MILLION, OR 41 PER CENT OF DEVELOPMENT EXPENDITURES, ALMOST EXACTLY THE SAME PERCENTAGE SHARE AS LAST YEAR. HOWEVER, MULTILATERAL AGENCIES ARE ASSUMING AN INCREASINGLY LARGE PROPORTION OF THIS FINANCING, AS SHOWN BY THE FOLLOWING SUMMARY (MILLIONS OF RUPEES):

	FY75/76	FY76/77
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REVISED

	ESTIMATES	ESTIMATES
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FOREIGN GRANTS:

BILATERAL	273.4	287.7
MULTILATERAL	58.7	129.8

FOREIGN LOANS:

BILATERAL	25.3	55.2
MULTILATERAL	162.7	264.1

5. REGULAR EXPENDITURE ALLOCATIONS ARE AS FOLLOWS (MILLIONS OF RUPEES):

CONSTITUTIONAL BODIES	27.8
GENERAL ADMINISTRATION	127.1
REVENUE ADMINISTRATION	24.6
ECONOMIC ADMINISTRATION	11.5
JUDICIARY	12.5
FOREIGN SERVICE	25.1
DEFENSE	160.4
SOCIAL SERVICES	129.7
(EDUCATION)	58.9
(HEALTH)	CQHDXC (36.2)
ECONOMCI SERVICES	91.5
LOANS AND INVESTMENT	9.4
DEBT SERVICING	100.6
MISCELLANEOUS	103.2

6. A LARGE NUMBER OF MDERATE ADJUSTMENT IN THE REVENUE STRUCTURE ARE PROPOSED. INCOME TAX EXEMPTION LEVELS ARE INCREASED AND THE MAXIMUM RATE REDUCED FROM 60 TO 51 PER

CENT, WHILE MODEST INCREASES IN A VARIETY OF SALES, EXCISE, TRANSPORTATION, ENTERTAINMENT AND CUSTOMS TAXES ARE TO RESULT IN A NET ADDITIONAL TA X INCOME OF RS. 120 MILLION. HIGHER PSOSTAL AND WATER RATES AND HIGHER PRICES ON GOVERNMENT TIMBER SALES ARE TOYIELD ANOTHER INCREMENT OF RS. 98 MILLION. THE GUILDING PRINCIPLE BEHIND THESE CHANGES IS TO RAISE ADDITIONAL REVENUE WHILE AT THE SAME TIME REDUCING THE DIRECT TAX BURDEN ON THE LOWER INCOME GROUP, AS WELL AS LESSENING THE PROCLIVITY

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CEA-01 /091 W

----- 068156

R 090340Z JUL 76

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 5618

UNCLAS SECTION 2 OF 2 KATHMANDU 2956

FOR TAX EVASION AMONG HIGHER INCOME GROUPS.

7. ONE NOTABLE FEATURE OF THE BUDGET IS SALARY INCREASES FOR GOVERNMENT EMPLOYEES, RANGING FROM 25 PER CENT FOR THE LOWEST CALSSIFICATION TO 12 PERCENT FOR THE HIGHEST. THIS IS THE FIRST SUCH INCREASE IN THREE YEARS.

8. COMMENT: THE BUDGET WAS PRESENTED TO THE NATONAL PANCHAYAT IN AN ATMOSPHERE OF RELATIVE SATISFACTION WITH THE CURRENT OVERLL ECONOMIC CONTEXT. THE DOUBLE-DIGIT INFLATION OF PREVIOUS YEARS HAD BEEEN BOUGHT UNDER CNTROL ON FY75/76, IN PART DUE TO APPRPRIATE GON MONETARY POLICY; A DETERIORATING BLANCE OFPAYMENTS SITUATION WAS REVERSED DURING THE YEAR; AND A QUITE SATISFACTORY AGRICULTURL YEAR WAS EXPERIENCED. THERE ARE NO SURPRISES IN THE PRESENTATION, WHICH REPRESENTS ON THE WHOLE A LOGICAL CONFORMITY WITH THE LONG-RANGE POLICY DEFINED BY THE CURRENT FIVE-YEAR PLAN. THE GREATEST SINGLE DISAPPOINTMENT IS THE SEVERE CUT FROM 16 TO 12 MILLION RUPEES MADE IN THE PROPOSED ALLOCATION FOR THE FAMILY PLANNING PROGRAM. IN HIS PRESENTATION SPEECH THE FINANCE MINISTER EXPRESSED DISATISFACTION WITH THE FACT THAT NEPAL'S RESOURCE MOBILIZATION IN THE FORM OF GOVERNMENT REVENUE STILL IS NO MORE THAN 6 PER CENT OF GDP. HE CONCEDED THAT THE STATE OF THE COUNTRY'S ECONOMY PRECLUDES RAID CHANGE IN THIS SITUATION, UNCLASSIFIED

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BUT CITED THE EXPERIENCE OF OTHER COUNTRIES THAT 15 TO 20 PER CENT OF GDP MUST BE CHanneLED INTO "INVESTMENT" IN ORDER TO ACHIEVE SUSTAINED GROWTH.

9. THE NATIONAL PANCHAYAT WILL BE DEBATING THE BUDGET PRESENTATION FOR SEVERAL DAYS, BUT IT WILL UNDOUBTEDLY BE PASSED IN ESSENTIALLY ITS PRESENT FORM.
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